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DE RUEHAA #0530/01 1170404

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FM AMEMBASSY ASHGABAT

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C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000530

SENSITIVE

SIPDIS

E.O. 12958: DECL: 04/24/2019

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SUBJECT: CONSTRUCTION IN TURKMENISTAN: FOR MAJOR COMPANIES,
DEATH MAY BE CERTAIN, BUT TAXES ... NOT SO MUCH

Classified By: Charge Richard Miles for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: According to the local representative from Deloitte in Turkmenistan, Turkmen-owned construction companies register offshore in order to move money overseas and take part in the part of the lucrative construction industry reserved for foreign companies. Foreign companies that are registered in noted tax havens, such as the British Virgin Islands, have found this to be a method of avoiding taxes in their home countries. Construction appears to be a money-making enterprise to the various ministries. According to our contact, the two largest foreign construction firms operating in Turkmenistan - Turkish company Polimeks and French company Bouygues - do not pay taxes to Turkmenistan, but rather "work something out" with Turkmen officials. It is clear that the construction industry offers a broad base for financial foul play. END SUMMARY.

¶2. (C) Embassy Officer met with a local representative from Deloitte in Turkmenistan, Ovez Agayev, on April 21. Deloitte is not yet registered in Turkmenistan and cannot officially transact business here and said the registration process should be completed in a few months. He said the company currently uses their parent office in Almaty as the signatory for any local contract. A company is not required to register if work performed does not exceed 45 days. Some companies have treaties with the local government that allow operations for up to twelve months without registration.

OFFSHORE AND THE LANDLOCKED COUNTRY

¶3. (C) There are many firms involved in construction in Turkmenistan, the majority of which are Turkish, with some Russian, as well as European and Asian based companies. According to our contact, there are Turkmen construction companies, although until recently, construction contracts were not awarded to these companies, citing lack of experience. Turkmen businessmen get around this obstacle by registering off shore in someplace like the British Virgin Islands and finding a foreign owner to act as the "puppet" principal of an organization with the Turkmen operating officially as the "Deputy." In reality, the local Turkmen deputy runs the show. The fact that the business is "foreign owned" also allows money to be sent outside the country, an added benefit to the Turkmen insider as he would not otherwise have the means to export funds. In spite of the largest construction contracts going primarily to two main foreign companies, the French Bouygues and the Turkish

Polimeks, the Turkmen Government recently began to award smaller construction projects to local Turkmen owned companies.

14. (C) Agayev said that some foreign or "foreign" companies (with Turkmen insiders) register offshore in Cyprus or the British Virgin Islands. This allows real foreign companies to avoid taxes in their home country. The Turkmen Government has no tax treaties with tax haven countries.

ONLY LITTLE PEOPLE PAY TAXES

15. (C) The largest construction projects are awarded primarily to two foreign firms - the French Bouygues and Turkish Polimeks - absent any formal competition or tender. The government orders profit generating ministries such as the Ministry of Oil and Gas, Energy, Railway and Construction to spend profits on building construction. Those Ministries are then responsible for the building, and if it is an apartment building, the Ministry provide apartments at half price to their loyal workers. Essentially, the workers are given the apartments for free, and then given a loan for 50 percent of the actual value and expected to pay the state bank back at an interest rate of 1 percent over 30 years. If all of the apartments are not used for their employees, the Ministry can return them to the Mayor's office for sale to the general public. At that point, there is a determination from the government whether or not the Ministry or the Central Government retains the profits from the sale of the apartment.

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16. (C) According to Agayev, Bouygues and Polimeks deal directly with the Turkmen Government on "tax issues." In short, he claimed that Polimeks and Bouygues do not pay taxes, but rather simply "figure something out" with the government.

17. (C) Agayev said the current tax code was adopted in 2004 and there have been a number of amendments, which make it much more understandable than before. Tax rates are as follows: for a company registered legally in Turkmenistan, 8 percent of profit is taxed. Additionally, if funds are repatriated to the host country, an additional 15 percent on those funds are collected. Tax treaties can reduce the amount of tax obligations. A company branch or a subsidiary, without the parent company in Turkmenistan, pays a flat 20 percent of profits in taxes. If the company is not registered, or somehow exempt, the contractor (payor) withholds 15 percent from their payment for the company's services.

18. (C) COMMENT: It is clear that the construction industry offers a broad base for financial foul play. Between the enormous amounts of white marble that are mandated to cover the outside of every building and just the sheer size of some of the building projects (the largest mosque, the second tallest flagpole, the most expansive entertainment complex, etc.), one has to wonder why so much money is spent on construction, especially since many buildings remain largely unoccupied. There must be large amounts of money falling through the open scaffolding of construction projects around the city. END COMMENT

MILES